

VISIT...

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● **Main Points:**

- **Successful daytrading depends on your ability to correctly interpret high-probability chart patterns that will provide you with buy and sell signals.**
- Learning technical analysis of stock charts is a critical skill that takes time and many hours of observation and practice to master. **It is not easy.**
- **Once you take the time to learn what to look for and how to trade it, you will gain confidence in your trades and very seldom be 'surprised' by price momentum.** You will be able to better anticipate where to enter stops, how to identify support and resistance, and manage your daily trading activity with more certainty and profit.
- Some daytraders use only intraday charts, others use only level 2. **Our belief is that mastering both sets of skills will give you a competitive edge against other traders whose capital you are trying to take.** Like windage and elevation scope controls for a high-powered rifle, you want to use the tools to be able to consistently hit the bullseye for winning trades. It is very much a learned skill. Daytrading is a zero-sum game. Mastering 1-minute intraday chart TA is a very useful skill.
- **We will give you a synopsis of exactly what to look for with the most frequently-used daytrading chart patterns: Volume, Formations (triangles, channels, flags, breakouts etc.), Stochastics, MACD, MA and RSI.**
- For this and other modules, we will be developing quizzes and 'test yourself'-type trading scenarios to help you further develop your daytrading skills.
- Entire books and chapters within trading books have been written about TA, so I will provide examples and recent charts, along with new information, to help further your understanding of technical chart analysis.

TA 101: How to Read Intraday Charts

- **Overall market trend is king**, so always watch Nasdaq (\$COMPQ), spoos, (/SP9) and sector charts (eg \$GIN, \$SOX) as the highest priority.
- Second, look at the **5-day** historical chart for your stock to identify recent support and resistance levels.
- Third, look for the **specific 1-minute (or 3-minute) intraday chart patterns** we'll be discussing on this and our other two pages (intraday bull and bear charts) to identify high-percentage patterns

to trade.

- Finally, look at **volume accompanying the patterns** you see. Remember, traders "vote with volume", so a trend on low volume (eg during 11:30-1:30EST) is suspect.

BASIC INTRADAY TREND PATTERNS: Up, Down and Sideways

Stocks tend to follow through on their patterns, until volume and price direction change. Here's a few examples:

UPTRENDING CHARTS: Notice higher highs and higher lows w/volume. No serious selling, price gets higher throughout the trading day.



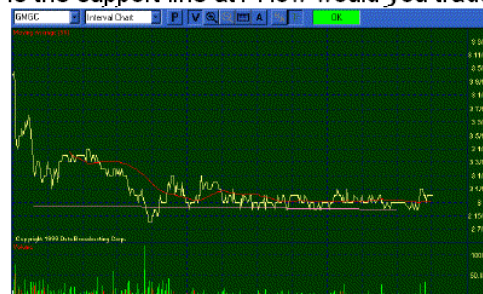
DOWNTRENDING CHARTS: Notice lower highs and lower lows w/volume. No serious buying, price gets lower throughout the trading day. The CIEN chart below shows it sold off then settled into a consolidation, or **TRADING RANGE**, from 10:30 to 12:30. Notice 3 volume spikes, even though block buys of around 100K shares went off it wasn't enough to lift CIEN's price. A weak stock.

For the COMPQ (NASDAQ Composite) screen, notice the trend lines I drew in, showing the composite index wasn't getting much buying after the morning run up (12/8/99).



IDENTIFYING SUPPORT AND RESISTANCE is an important skill to learn, particularly when you're looking to improve your skill at buying bottoms and shorting tops (as well as the basic "buy into the trend" approach). Again, start with a 5- or 10-day look, then narrow your focus into the current day's trading momentum.

SUPPORT: In the CIEN chart above, support is at 47 1/2. In the GMGC chart below, where is the support line at? How would you trade it?



(answer: the support line is in pink, buy the stock if it breaks through the resistance level 1/4 point above the support line - the resistance level. Buy on a breakout above the resistance, or buy off the support level and sell it at the top of the trading range - this is a "channel play").

DOUBLE BOTTOM INTRADAY (or 5-Day) SUPPORT BOUNCE: In the XRX 5-day chart below, we see that support is at 28. You could either buy the next time it hits 28 (with a stop at 27 7/8), or wait until it breaks through its resistance line at 28 3/4.



DOUBLE TOP INTRADAY (or 5-Day) RESISTANCE SHORT: Can you identify the "double top" in the chart below? What's the play? Short it at the 2nd top, especially if it's reaching the 2nd top on *lower volume* (or during lunch hours). The price will probably fade. On the other hand, you'd want to go long if it broke through the resistance level on the 2nd or 3rd try.



Advanced Intraday TA: What the Pros Use

On the next two pages, we will go over specific chart patterns to be on the lookout for: [Bullish Intraday Chart Patterns](#) and [Bearish Intraday Chart Patterns](#).

Below, we will learn **how to daytrade using advanced intraday technical indicators** that pro daytraders and mm's use to scalp trades and better time their entries and exits. The equivalent in Level 2 (which we'll cover in Module 2), involves shadowing the lead market maker, identifying t&s momentum patterns, and managing your bid/ask sizes.

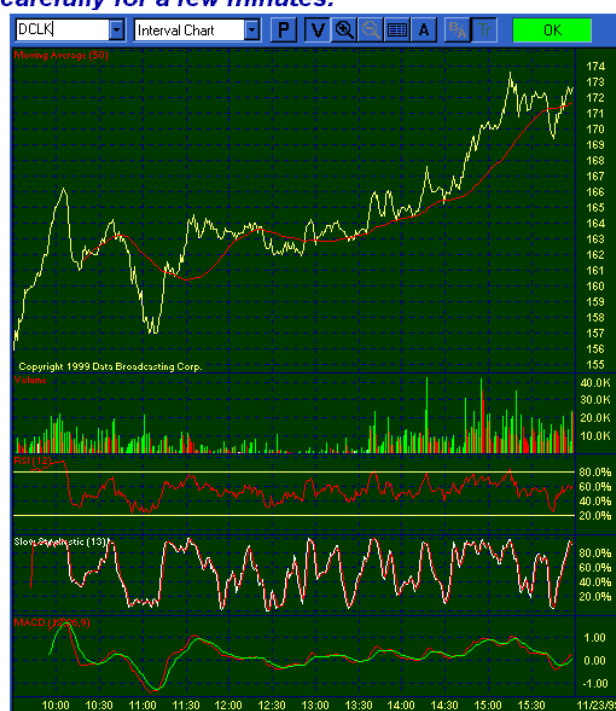
Please study this chart carefully for a few minutes:

50 MA

RSI: Relative Strength Index

13 Slow Stochastic

12,26,9 MACD



There are dozens of technical indicators out there (Bollinger bands, envelope channels etc). **The ones on the chart above are the only ones that pros use. We will cover how to use them to daytrade effectively** (although I was a Ford Motor Co. statistician 8 years ago, I will not put you to sleep with the computational details; see a good TA book for that):

50 MA Use an **MA line** to help you see the average price trend throughout the day. **Think of it as a dynamic support/resistance line.** It plots the average price for you. Buy when the price dips to touch the 50MA and starts to rebound. In the DCLK example above, look at the price at 14:30 (2:30pm). A **buy signal** would be when the price touched the 50MA red line and started to rebound. Buy Limit DCLK 167 1/4. Sell anywhere over 170.

By the way, the only reason we use charts and level2 is for us to be able to **correctly respond to the buy and sell signals** they are giving us. It takes lots of practice (months and months) to develop a sense for reading the charts and level2. So be patient with yourself and start practicing.

RSI: Relative Strength Index

RSI is somewhat useful, though not my favorite indicator. **RSI is a momentum indicator** which measures an equity's price relative to itself. RSI is less responsive to big swings in the price, so it filters out some of the "noise" in a stock's trading activity. **A buy signal is seen when the RSI line drops below 20** and starts to touch the bottom line - in the DCLK example above look at the 11:00 RSI curve - this was RSI's contribution to the day, told us to buy when RSI kissed the 20 line. A **sell signal** occurs when the RSI goes **above the 80 line**, although I've found many false signals in using RSI. Therefore, **use RSI only as a confirming indicator** for the other technical and momentum price signals you see. Also, **check for divergence between RSI and the price curve**; eg if you see a downward sloping price curve and upward sloping RSI curve the price may rebound up, if you see an upward sloping price curve, declining volume and a downward sloping RSI then the price is probably ready to pull in (drop). RSI is a 'just ok' measure.

13 Slow Stochastic

The stochastic, along with volume, is the **daytrader's favorite** momentum oscillator. See this [Clearstation link](#) for a complete description. Stochs are used to identify "pivots", or turning points, in a stock's price momentum. Again, this needs to be weighed against overall market direction and volume for your stock. How to use the stochastic in daytrading? It rapidly oscillates up and down based on the stock's price momentum. **Think of it as a "red light/yellow light/green light" momentum flag for your trades.** If the two lines on the stoch have just reached the bottom and are heading up, the stock price will probably head up as well.

In the DCLK example above, look carefully at the stoch curves and DCLK price curve at 13:20 and 14:30. You'll see the stochs (red/white lines) bottom right before the DCLK price rises. Next to volume, stochs are my favorite indicator. Experiment with different settings, I find 13 is the best (the crowd uses 15, so I set mine in by 2 to gain a bit of an edge). It's a trustworthy tool, like a screwdriver. Learn how to use it. Practice with it.

12,26,9 MACD

MACD ([also see this link](#)) is a slower, more gradual indicator that can be used as an overall trend indicator. I always like to **look for the two lines crossing and turning up off the bottom to indicate a good time to buy**. It's also an "ok" lagging indicator, you can see in the DCLK example it provided a confirmation of the 11:00 bottom to buy off of, nothing original however. I find MACD to be a reassurance and a confirming trend indicator. As we said, **a buy signal is generated when the two MACD lines cross and start turning up**. It's a fairly decent indicator, use in combination with the others.

Ok, that's it for the advanced indicators. They're not rocket science; the most difficult part for me was learning how to see them on autopilot, along with Level 2, to generate true buy and sell signals. Your first months will be full of seeing false signals, not knowing "for sure" what they're telling you (and by then it's too late, etc.).

Our advice? Be patient with yourself, get a bunch of historical intraday charts with these indicators and practice for yourself with my "3x5 card at the monitor" technique (it really works!). Pull up a chart, then cover the right half of it with a 3x5 card and slowly move the card from left to right, to simulate what the chart would look like in a real trading day.

Look at the indicators and 'papertrade' to see if you are reading the chart correctly. Also be sure to reference the composite and sector index charts while you do this, to simulate your real daytrading efforts. Good luck.

Now, on to "[Bullish Intraday Chart Patterns](#)" and "[Bearish Intraday Chart Patterns](#)"...



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